

July 2010

Key Russia Economic and Market News

Economy

- According to Renaissance Capital on 12th July, Russia's gross domestic product may increase 3% this quarter from the same period last year as Government spending bolsters industrial output: "The main positive growth drivers appear to be related to a direct impact of the Government's efforts to reinvigorate the economy."
- Investor confidence in Russia's banks is improving as the recovery stimulated loan growth. Central Bank Chairman, Sergey Ignatiev, told lawmakers bank lending climbed between 3-4% in the three months ending in June. The increase would be the biggest advance since Q3 of 2008, according to Bloomberg.
- Russian Finance Minister, Alexei Kudrin, said on 2nd July that that Russia's credit rating might be upgraded once the current crisis ends. He also mentioned that Russia might issue a RUB Eurobond in 2010 or 2011.
- First Deputy Chairman of the CBR, Alexey Ulyukaev, speaking at the Yalta conference on 1st July, said that Russia saw capital inflows of \$3-4bn in June. According to VTB Capital, the RUB weakness in May-June (about 3.5% against the basket) was orchestrated by the CBR as both the current and capital accounts registered solid surpluses.
- VTB Capital's Russian Services Purchasing Managers Index (PMI) eased further to 55.4 in June, from 55.9 in May, but continued to point to growth in the sector for the 11th month in a row. The key sub-indices eased marginally well above the 50 no-change level. The employment index remained in growth territory for the second month, although it declined to 50.6. The input prices index eased, while the prices charged index increased to a ten-month high.

Currency

- On 12th July Bloomberg reported that Russia's currency strengthened 0.3% versus the dollar to 30.80 at the close in Moscow and was 0.7% higher at 38.72 versus the euro. "The stronger rouble is reflective of what is still a sustained high oil price," said Renaissance Capital.

Capital Markets

- On 1st July, MICEX launched a process expected to resuscitate a plan to set up a central national depository that has been in limbo for several years, RBC Daily reported. The annual shareholders' meeting voted for merging the MICEX Clearing Chamber with the National Depository Centre, a company controlled by the exchange, the Russian business newspaper said. The new company will bear the name National Clearing Depository.
- As of 15th July, Russia's 30-stock Micex Index fell 2.27% and the dollar-denominated RTS Index rose 0.24% over the last month.

Private Equity

- UFG Asset Management announced on the 7th July that they have raised \$225m for private equity investments, the most by a Russian fund since the 2008 collapse of Lehman Brothers Holdings Inc. UFG has invested \$100m of the total in Yandex, Russia's most-used search engine, cinema chain Rising Star Media, telecommunications services provider Russian Towers and broadband Internet provider Enforta.

Aurora Investment Advisors Comment

- Aurora Russia Limited reported their full year results last month. Aurora has now invested £73.91 million in five portfolio companies. The companies are valued at 31 March 2009 at £92.2 million, representing an increase over investment cost of 24.76%. Aurora now owns 26% of Unistream Bank, 100% of Kreditmart, 100% of Flexinvest Bank, 24.3% of SuperStroy's holding company, and 95.5% of OSG Records Management. Three of our five investments maintain their leadership position in their respective markets.
- Before investing in any company, we believe it is vital to have a clear exit strategy. Russia remains the largest underserved consumer market in Europe and our portfolio companies are poised for exit, some as market leaders in their sector. Now that the Russian market is growing again, we expect to see the return of trade and financial investors in Russian companies as they seek returns above those they can achieve in their traditional markets. We therefore anticipate that as this trend develops we will have more opportunity to exit our investments favourably, thereby maximising returns for all Aurora Russia's shareholders.

Currency Indicators*

As of 15 th July	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	30.54	-1.8%	-2.9%	5.1%	3.8%
Exchange Rate RUR/€	38.81	-0.8%	1.9%	-2.1%	-9.3%
Exchange Rate RUR/£	46.46	-1.0%	0.3%	3.9%	-3.0%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 30/06/2010	As of 31/05/2010
MoM	0.4%	0.5%
YoY	5.8%	6.0%
GDP	Q1 2010	Q4 2009
YoY	2.9%	-3.8%

** Source: Bloomberg and Reuters

As at 15 July 2010

